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# Instructions for Form 8978 (Including Schedule A)



(Rev. December 2024)

## Partner's Additional Reporting Year Tax For use with Form 8978 (Rev. January 2023)

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Section references are to the Internal Revenue Code unless otherwise noted.

## Future Developments

For the latest information about developments related to Form 8978 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8978](https://www.irs.gov/Form8978).

## What's New

In general, adjustments from multiple Forms 8986 received from partnerships can be reported by a partner on one Schedule A (Form 8978) as long as the adjustments are from the same source type. Totals from the Schedule A are carried by the partner to Form 8978. However, adjustments from Forms 8986 related to administrative adjustment requests (AARs) must be separated from adjustments from audits under the centralized partnership audit regime of the Bipartisan Budget Act of 2015 (BBA). For this reason, check boxes have been added to Form 8978 and its Schedule A to indicate the source of the adjustment(s) being reported: AAR filing or BBA audit.

If a partner has adjustments from more than one source (AAR filing or BBA audit), each source type must be reported on a separate Form 8978 and Schedule A. The partner indicates the source of adjustment using the check boxes. Schedule A adjustments related to an AAR filing are carried to a Form 8978 with the "AAR Filing" box checked. Schedule A adjustments related to a BBA audit are carried to a Form 8978 with the "BBA Audit" box checked.

Because each Form 8978 and its Schedule A only provide for 4 years of reporting, if there are more than 4 years of adjustments for either source, the partner must file multiple Forms 8978 and Schedules A relating to that source. See [Reporting adjustments from both an audit and from an AAR](#).

## Purpose of This Form

Partners (other than pass-through partners such as partnerships or S corporations) use Form 8978 and Schedule A (Form 8978) to report adjustments shown on Forms 8986 received from partnerships that have elected to push out adjustments to partnership-related items to their partners.

**Note:** An entity such as a trust or an estate can be both a taxable partner and pass-through partner. For adjustments to

items that are taxable to the entity partner, it should use Form 8978; and for adjustments to items that pass through to the partner's owners or beneficiaries, it should follow the Forms 8985 and 8986 instructions for pass-through partners.

The Schedule A (Form 8978) lists all the adjustments a partner receives on Form 8986. Schedule A is also used to report any related amounts and adjustments not reported on Form 8986 which may result from changes to partner-level tax attributes as a result of adjustments from Form 8986.

Form 8978 should only be used for changes to a partner's income tax. Any non-income tax changes that are related to the income tax adjustments on Form 8986 received by the partner, such as self-employment tax changes, should be reflected on an amended return for the partner's first affected year. The amended return should include a statement that explains how the change to non-income tax was calculated, and the source of the adjustment. See Instructions for [Form 1040-X](#) for further information.

**Non-pass-through partners reporting credit amounts on Form 8978.** Partners other than pass-through partners (such as partnerships or S corporations) use Form 8978 and Schedule A (Form 8978) to calculate the tax in their reporting year from adjustments shown on Forms 8986 (pushout statement) originating from a BBA partnership because of a BBA examination or a BBA partnership AAR filing. The partner's reporting year is the partner's tax year that includes the date the audited BBA partnership or BBA partnership that filed an AAR furnished the Forms 8986 to its partners.

These partners do not report on Form 3800 any changes to credits reported on the pushout statement. Instead, Form 8978 is used to calculate the change in tax for the first affected year and any intervening years of the partner that result from the adjustments included on the pushout statement (including adjustments to credits). The first affected year is the partner's tax year that includes the end of the audited partnership's reviewed year or the year for which the AAR was filed. The intervening years are the partner's tax years that end after the first affected year and before the reporting year. The total change of tax for these years is then reported on Form 8978 as an increase/decrease to the reporting year tax.

Because the total tax change is reported on Form 8978, which is then used to change the reporting year tax, a refund claim is not made by the partner and the adjustments to credits reported on Form 8978 should not be duplicated on Form 3800. See Exception below pertaining to "Form 3800 for Form 8978 Calculation Only," which will not duplicate reported credits but only support the calculation contained on the Form 8978. However, any carryforward credit amounts after the first affected year and any intervening years are reported on Form 3800 for the reporting year and reported as carryforwards (if appropriate) on Form 3800 in years after the reporting year.



**Exception:** In preparing Form 8978, the partner may attach Forms 3800 to support the applicable first affected year or intervening year(s) calculations by labeling each Form 3800 attachment in each header with: "Form 3800 for Form 8978 Calculation Only."

## Definitions

**AAR partnership** is a BBA partnership (see below) which has filed an administrative adjustment request (AAR) under section 6227.

**Additional reporting year tax** is the partner's change in chapter 1 tax for the reporting year after taking into account the adjustments.

**Affected partner** is a partner that held an interest in a pass-through partner at any time during the tax year of the pass-through partner to which the adjustments in the statement relate.

**Applicable tax year** is any tax year that is impacted by the audit adjustments shown on Form 8986. For example, if the adjustments are from tax year 2020 (first affected year), that year would be impacted as well as any year between the first affected year and the reporting year that had related changes to partner-level tax attributes.

**Audited partnership**, for purposes of Form 8978, is a BBA partnership that made the election under section 6226 to have its partners take into account their share of adjustments for partnership-related items.

**BBA AAR** is an administrative adjustment request filed by a BBA partnership.

**BBA partnership** is a partnership that is subject to the centralized partnership audit regime that was enacted into law by section 1101 of the Bipartisan Budget Act of 2015 (BBA).

**First affected year** is the partner's tax year that includes the end of the audited partnership's reviewed year(s). Each reviewed year of an audited partnership should have a corresponding first affected year for each partner.

**Intervening years** include the partner's tax years that end after the first affected year and before the reporting year.

**Non-pass-through partner** is a partner that is other than a pass-through partner.

**Pass-through partner** is a pass-through entity that holds an interest, either directly or indirectly, in a partnership. Pass-through entities include partnerships required to file a return under section 6031(a), S corporations, trusts (other than wholly owned trusts disregarded as separate from their owners for federal tax purposes), and decedents' estates. For this purpose, a pass-through entity is not a wholly owned entity disregarded as separate from its owner for federal tax purposes.

**Note:** An entity partner can be both a non-pass-through partner and pass-through partner. To the extent the adjustments an entity partner receives on a Form 8986 relate to items that are taxable at the entity level, it is considered a non-pass-through partner and with regard to adjustments that pass through to its owners/beneficiaries it is considered a pass-through partner.

**Reporting year** is the partner's tax year(s) that includes the date the audited or AAR partnership furnished the Forms 8986 to its partners. The date the audited partnership or BBA partnership that filed an AAR furnished Forms 8986 to its partners is found on Form 8986, Part II, item G. For example, if the Form 8986, Part II, item G, date is 06/15/2023 and the partner receiving the Form 8986 is a calendar-year-end partner, that partner's reporting year is tax year ending 12/31/2023.

**Reviewed year** is the audited or AAR partnership's tax year to which the partnership adjustment(s) relates.

**Reviewed year partner** is any person that held an interest in the audited or AAR partnership at any time during the partnership's reviewed year.

## General Instructions

### Who Must File

Every partner (except pass-through partners) that receives a Form 8986 from a pass-through entity must file Form 8978 to report any additional reporting year tax as a result of taking into account the partner's share of the reviewed year(s) adjustments.

### Where and When To File

A reviewed year partner or affected partner must file Form 8978 with a federal income tax return for the partner's reporting year.

**Example 1. Where and when to file.** On March 1, 2024, an audited partnership furnishes Forms 8986 to its two partners. One of these reviewed year partners is a calendar year individual and the other is a pass-through partner. On January 15, 2025, the pass-through partner, in turn, furnishes Forms 8986 to its two partners who are calendar year individuals. The reporting year for all three individuals is the tax year that includes March 1, 2024. Because the partners all have a calendar year end, the reporting year is the 2024 tax year. The partners must each attach a completed Form 8978 to their individual income tax returns which are due April 15, 2025 (without regard to extensions).

### Completing Form 8978 and Schedule A

#### What to report on Form 8978 and Schedule A (Form 8978).

The specific adjustments listed on Form 8986 received by a reviewed year or affected partner, and other adjustments from partner-level tax attributes that have changed as a result of taking into account the adjustments, should be listed on the partner's Schedule A under lines 1, 3, and 5 for income, deductions, and credits, respectively, for the applicable tax year. The totals on lines 2, 4, and 6 of Schedule A are reported on lines 1b, 3b, and 9b, respectively, of Form 8978.

**Note.** Tax attribute schedules should be adjusted to the extent adjustments to non-income items were received. For example, if the partner's Form 8986 reflected a decrease to the partner's share of recourse liabilities, this could change the partner's amount at risk, which in turn could result in an adjustment on Schedule A to reduce the allowable loss from the partnership. In this example the partner's at risk schedule should be adjusted and an increase to income should be reported on Schedule A to reflect the decrease to the previously reported loss from the partnership.

**Tax calculations.** Taxes should be figured and shown on a separate statement. In general, non-pass-through partners that receive adjustments from a Form 8986 should figure the additional reporting year tax as if all the adjustments on Form 8986 had been included on the partner's first affected year return using a statement attached to Form 8978 to support the amounts reported on lines 6 and 7 of the Form 8978. The additional reporting year tax from line 14 is then reported on the partner's reporting year income tax return.

**Columns (a) through (d).** Columns (a) through (d) on Form 8978 and Schedule A can be used for adjustments for the first affected year or intervening years. See [Receipt of multiple Forms 8986](#), later.

**Years to include and exclude on Form 8978 and Schedule A.** Only applicable tax years (see [Definitions](#), earlier) need to be shown on Form 8978 and Schedule A. A year that is not impacted does not have to be shown on the form or schedule. For example, if the first affected year is 2020 and the reporting year is 2025, years 2021–2024 are considered intervening years. If the only intervening year impacted is 2023 (that is, 2023 is the only intervening year that had related changes to partner-level



tax attributes as a result of the 2020 adjustments), the form and schedule only need to show 2020 and 2023.

**Receipt of multiple Forms 8986.** If a partner receives multiple Forms 8986 for different years, a column on the form and schedule could be both an affected year and an intervening year.

**Note.** If all of the adjustments from Forms 8986 cannot fit on one Schedule A (Form 8986), multiple Schedules A can be attached. If more than one Schedule A is needed, enter the totals from all Schedule A lines 2, 4, and 6 on the corresponding Form 8978 lines 1b, 3b, and 9b, respectively.

**Reporting adjustments related to an AAR.** Adjustments from an AAR are reported separately from adjustments from a BBA audit on Forms 8978 and Schedules A. A checkmark in box 1 or 2 of Part I, item A of Form 8986 indicates the adjustments are related to an audit of a BBA partnership. A checkmark in box 3 or 4 of Part I, item A of Form 8986 indicates the adjustments are related to an AAR. If a partner has no adjustments from a Form 8986 that are related to an audit, but only adjustments related to an AAR, only the AAR-related Form 8978 and Schedule A need to be included.

If one or more adjustments are from a Form 8986 that is related to an AAR, a separate Form 8978 and Schedule A (Form 8978) must be completed to report the tax impact of these adjustments and calculate the correct interest. The Form 8978 and its Schedule A should be filled out in the same way as for an audit-related Form 8978 and its Schedule A. Select the “AAR Filing” checkbox at the top of the Form 8978 and the Schedule A and enter the employer identification number of the entity that issued the Form 8986.

**Note.** If all adjustments are AAR-related, only one Form 8978 and one Schedule A need to be completed.

**Reporting adjustments related to a BBA audit.** The following example shows how adjustments reported on Form 8986 related to a BBA audit are reported on Form 8978 and its Schedule A.

**Example 2. Completing Form 8978 and Schedule A for an audit-related Form 8986.** On June 10, 2024, Bill Jones, who files as a single individual, calendar-year taxpayer, receives a Form 8986 from an audited partnership of which Bill is a partner. The Form 8986 is for reviewed year 2021. Part II, box G, of the Form 8986 indicates that the audited partnership issued Forms 8986 to its partners on June 8, 2024. Because June 8, 2024, is within Bill’s tax year ending December 31, 2024, Bill must report these adjustments on his 2024 Form 1040 income tax return and attach Form 8978.

The Form 8986 indicates that Bill’s share of the adjustments includes a \$15,000 increase to ordinary income and a \$10,000 decrease in other deductions, in Part V of Form 8986, and a \$6,000 decrease to capital gains, shown as a negative amount in Part V of Form 8986.

Bill determines that the adjustments shown on Form 8986 are from a partnership that he treats as a section 469 passive activity for tax purposes.

Bill previously reported no capital gains or losses on his Forms 1040 in 2021 and 2022 due to reported capital gains being completely offset by reported capital losses, and now has a \$6,000 decrease to capital gains (increased capital loss). Due to the \$3,000 annual capital loss limitation, the \$6,000 capital loss adjustment is taken in \$3,000 annual increments. So, Bill claims a \$3,000 capital loss in 2021 and the remaining \$3,000 capital loss in 2022.

Bill enters the ordinary income, the capital gain/loss adjustments, and the appropriate tracking numbers on Schedule A (Form 8978), lines 1a and 1b, respectively. After taking into account the BBA income adjustment for 2021, Bill determines that there are \$5,000 in previously suspended

passive activity losses that can be used. He enters the \$5,000 that he has determined is available for offset as a negative amount on line 1c.

Bill carries the totals from lines 2 and 4 of Schedule A to Form 8978, lines 1b and 3b, respectively. Bill also completes lines 1a, 2, 3a, and 4 on the Form 8978, according to the instructions.

Bill attaches to Form 8978 a statement that shows how his tax year 2021 corrected taxable income, income tax, and AMT, if applicable, were figured. He includes the income adjustment as an increase to income and the deduction adjustment as a decrease to deductions.

Bill carries the amounts figured in the statement to lines 5, 6, and 8 of Form 8978. He enters his corrected tax liability for tax year 2021 on line 11 of Form 8978. He enters his income tax as previously reported for tax year 2021 on line 12 of Form 8978 and subtracts this amount from the amount on line 11 to obtain the increase or decrease to tax, which he enters on line 13.

If any applicable penalties are shown on Form 8986, Part V, Bill must attach a statement to his Form 8978 that shows how the additional penalties that result from the additional tax were figured. If penalties are applicable, Bill needs to include this amount on line 15 of Form 8978. Because Part V of the Form 8986 Bill received indicates that the section 6662 substantial understatement penalty applies, Bill prepares a separate calculation which shows that the additional \$3,408 in tax reported on line 13, column (a), of the Form 8978 does not exceed the \$5,000 threshold required for the penalty to apply. He attaches this separate penalty calculation statement to his return and enters zero on line 15 of his Form 8978.

Bill figures his additional interest on the increase in tax shown on line 14 of his Form 8978 from April 15, 2022 (the due date of his 2021 return), up to the date the additional reporting year tax is paid. If penalties had been shown on his Form 8978, Bill would have figured interest on penalties from the due date of his 2021 return, or the extended due date of his 2021 return, if a valid extension request had been filed.

**Note.** The reduction in tax for 2022 reflected in column (b) of the Form 8978 is included in the total increase to tax reported on line 14, but is not included in the interest calculation.

Bill must report the additional reporting year tax from line 14 of Form 8978 on the appropriate line on his 2024 Form 1040, following the Instructions for Form 1040.

Bill’s payment accompanying his 2024 Form 1040 should include the tax and interest. If a penalty had been applicable, he would include that in his payment as well.

Bill must attach Form 8978, Schedule A (Form 8978), and the calculation statements to the Form 1040 he files for 2024. In this example, Bill should include statements for tax and penalty calculations related to Form 8978. He should also attach his section 469 suspended loss and section 199A schedules; these should include the adjustments shown on his Schedule A (Form 8978).

If a corporation received a Form 8986 identical to the one that Bill received, the corporation would follow the same procedures for completing Form 8978 and Schedule A, and include those with its tax year 2024 income tax return. The additional tax, penalties, and interest would be reported and paid following the instructions for the corporation’s income tax return.

**Reporting adjustments from both an audit and from an AAR.** If a partner receives one or more audit-related Forms 8986 and also one or more AAR-related Forms 8986, the partner’s Form 8978 related to the AAR adjustments should be completed first. The numbers shown on this first Form 8978 should be included in the “as previously reported” numbers on the Form 8978 related to the audit adjustments. Each Form 8978 should have applicable lines completed, and the partner should

add all the amounts on line 14 (total increase/decrease to tax) from all the Forms 8978 and report the sum on the appropriate line of the tax return.

**Example 3. Completing Forms 8978 and Schedules A for an audit-related Form 8986 and an AAR-related Form 8986.**

Frank Smith files as a single individual. On May 15, 2023, Frank received a Form 8986 related to an AAR that was filed by a partnership in which he is a partner. This Form 8986 reflects an increase of \$5,000 to Frank's share of other deductions. On June 12, 2023, he received a Form 8986 related to an audit, showing an additional \$10,000 in income. No penalties were noted on either Form 8986. According to the date shown on Parts II, item D of the Forms 8986, both relate to adjustments made to the 2020 tax year.

Frank's first step is to complete a Form 8978 and Schedule A (Form 8978) for the AAR-related adjustments. He calculates a decrease in tax of \$1,200 from the AAR-related adjustments and reports that amount on line 14 of the AAR-related Form 8978.

Frank's second step is to complete another Form 8978 and Schedule A (Form 8978) for the audit-related adjustments. On this second Form 8978 (the audit-related Form 8978), he includes the amounts from the AAR-related Form 8978 in the "previously reported" amounts on lines 1a, 3a, 9a, and 12. He figures a total increase to tax of \$2,400 from the audit-related adjustments and reports this on line 14 of the audit-related Form 8978. He reports the total net amount of \$1,200 on the appropriate line of his Form 1040, referring to the Instructions for Form 1040.

Frank attaches the forms to his 2024 Form 1040 and includes payment of the additional \$1,200 in tax, following the Instructions for Form 1040 with regard to amounts from Form 8978. The amount of interest is figured on the audit-related increase to tax on line 13 of the audit-related Form 8978 using the short-term quarterly rate plus 5%; interest runs from the due date of Frank's 2020 Form 1040 to the date of payment. This amount is reported on lines 17 and 18 of the audit-related Form 8978.

Because the AAR-related Form 8978 showed a decrease to tax, no interest is shown on that Form 8978. If the AAR-related Form 8978 had an increase to tax, the interest would be figured using the same dates as for the audit-related Form 8978, but the rate would be the short-term quarterly rate plus 3%, and the amount would have been reported on line 17 of the AAR-related Form 8978.

**More than 4 applicable tax years.** If there are more than 4 applicable tax years (see *Definitions*, earlier), additional Forms 8978 should be prepared for the additional years. Each Form 8978 should have all lines completed and the total of all the line 14 amounts should be reported on the appropriate line of the partner's return. Include a Schedule A for each Form 8978.

**Foreign partners that receive Forms 8986.** Foreign corporate partners that receive Forms 8986 must complete separate Forms 8978 and Schedules A (Form 8978) to report adjustments pertaining to effectively connected income (ECI) under section 882, and fixed, determinable, annual, periodical (FDAP) income under section 881. ECI is income effectively connected with the conduct of a trade or business in the United States; FDAP income is income from U.S. sources not effectively connected with the conduct of a trade or business in the United States. The Forms 8978 and related Schedules A should clearly indicate whether they reflect ECI or FDAP income. Each "ECI Form 8978" and its Schedule A should only include ECI figures, and each "FDAP Form 8978" and its Schedule A should only include FDAP figures.

**Note.** Attach a statement to each "ECI Form 8978" and each "FDAP Form 8978" explaining how all line 13 income tax

numbers were calculated. Enter the total of all the line 13 amounts on line 14. Enter the amounts from line 14 on the applicable lines on the partner's reporting year income tax return. See the instructions for the applicable income tax return. You may receive a Form 1042-S or 8805 from the partnership (or a pass-through partner) that has withheld on your additional reporting year tax, and you may claim the withholding credit on your income tax return.

## Specific Instructions for Form 8978

### Part I—Computation of Additional Reporting Year Tax

Each column, (a) through (d), is figured separately for lines 1 through 13.

**Line 1a—Total income per original return or as previously adjusted.** Enter the total income amount as shown on your original or amended return, or as adjusted by the IRS. Enter negative amounts in parentheses.

**Line 1b—Adjustments to income.** Enter the amount from Schedule A, line 2, Total adjustments to income.

**Line 2—Corrected income.** Enter the total of lines 1a and 1b.

**Line 3a—Total deductions per return or as previously adjusted.** Enter the total amount of deductions shown on your original or amended return, or as adjusted by the IRS.

**Line 3b—Adjustments to deductions.** Enter the amount from Schedule A, line 4, Total adjustments to deductions.

**Line 4—Corrected deductions.** Combine the amount on line 3b with the amount on line 3a and enter the result.

**Line 5—Corrected taxable income.** Subtract line 4 from line 2 and enter the result. This should be the corrected taxable income. If, as a result of changes in tax attributes, corrected taxable income is different from the result obtained by subtracting line 4 from line 2, include a separate statement showing how the corrected taxable income amount was figured and enter that corrected amount on line 5.

**Line 6—Income tax.** Include a separate statement showing how the corrected income tax was figured and enter that corrected income tax on line 6. See the Instructions for Form 1040 or the instructions for your income tax return for the appropriate year(s).

**Line 7—Alternative minimum tax (AMT).** If AMT applies, include a separate statement showing how the corrected AMT, including the applicable adjustment(s) shown on Schedule A, was figured and enter the corrected AMT on line 7. See the Instructions for Form 1040 or the instructions for your income tax return for the appropriate year(s) to figure the corrected AMT.

**Line 8—Total corrected income tax.** Enter the sum of lines 6 and 7.

**Line 9a—Total credits per return or as previously adjusted.** Enter the total amount of credits shown on your original or amended return, or as adjusted by the IRS.

**Line 9b—Adjustments to credits.** Enter the amount from Schedule A, line 6, Total adjustments to credits.

**Line 10—Total corrected credits.** Combine the amounts on lines 9a and 9b and enter the result on line 10.

**Line 11—Total corrected income tax liability.** Subtract line 10 from line 8 to obtain the corrected income tax liability. This amount should not include any non-income taxes. If, as a result of changes not reflected on a line item on the form or schedule, corrected income tax liability after credits is different from the result obtained by subtracting line 10 from line 8, include a separate statement showing how the corrected liability was figured and enter that correct amount on line 11.

**Line 12—Total tax shown on return or as previously adjusted.** Enter the amount shown on your original or amended return, or as adjusted by the IRS.

**Line 13—Increase/decrease to tax.** Subtract the amount shown on line 12 from the amount on line 11 and enter the result.

**Line 14—Total additional reporting year tax.** Enter the sum of line 13, columns (a) through (d). Report this amount on the appropriate line of your income tax return for the reporting year.

**Line 15.** Form 8986, Part V, Applicable Penalties, lists which penalties, if any, apply and which line items are affected. If penalties apply, include a statement showing how the penalties were figured and enter the amount of penalties in the applicable column(s) of Form 8978. Penalties for each applicable tax year should be reported on line 15, columns (a) through (d).

**Line 17.** Interest on any increase in income tax is figured from the original due date of your income tax return for each tax year to which an increase in tax is attributable, as determined under section 6226(b)(3). Interest is computed at the underpayment rate under section 6621(a)(2), but substituting “five percentage points” for “three percentage points” for purposes of section 6621(a)(2)(B) (that is, the sum of the federal short-term rate plus five percentage points instead of three percentage points). For additional reporting year tax reported as a result of a Form 8986 from an AAR, this substitution is not made. Interest for each applicable tax year should be reported on line 17, columns (a) through (d). Attach your interest computation.

**Note.** Interest should not be calculated on any decreases in tax on line 13 for a tax year.

**Note.** Interest on penalties is figured in the same manner as interest on tax, except it is figured from the due date of the partner’s return including any valid extensions that were filed by the partner.

**Where to report additional reporting year tax.** The total additional reporting year tax from Form 8978, Part I, line 14, is reported on the appropriate lines of the partner’s reporting year return (see the instructions for the applicable reporting year tax return). The additional penalties and interest should be included in the net payment calculation for the partner’s reporting tax year but these are not reported on the partner’s reporting year return and are not included in the additional reporting year tax. If the partner of a BBA audited partnership previously made a deposit to suspend the running of interest on potential underpayments (under IRC 6603, Rev Proc 2005-18), please include a statement requesting the payment(s) be applied to the underpayment. The statement must include the date(s) and amount(s) of the original deposit(s), the name and TIN of the BBA partnership under exam, the reviewed year of the BBA partnership under exam, and the Audit Control Number (ACN) of the BBA partnership under exam.

## Specific Instructions for Schedule A (Form 8978)

**Adjustments.** Enter the description of the item that corresponds to the Schedule K-1 or Schedule K-3 line number and title, as reflected in columns (a) and (b) of Form 8986, Part V. For example, if Form 8986, Part V, column (a), shows “1” and column (b) shows “Ordinary business income,” enter on Schedule A, Adjustments column, “Schedule K-1, line 1, Ordinary business income.” For adjustments due to changes in partner tax attributes, use the description used on the partner’s return.

**Note.** Schedule K-3 (Form 1065) adjustments that do not directly increase or decrease a partner’s taxable income should be reported with a zero amount on Schedule A (Form 8978), with any corresponding change to the partner’s tax attributes, such as the foreign tax credit, shown as a positive (increase) or negative (decrease) amount.

**Tracking number.** If an adjustment is from a Form 8986, the tracking number column should be completed for that adjustment line. The tracking number can be found at the top of the Form 8986. If the tracking number is not on the Form 8986, use the audit control number at the top of the Form 8986, and if the audit control number is also blank, enter the tax identification number of the entity that issued the Form 8986. Leave the tracking number field blank for all adjustments to partner-level tax attributes.

**Reporting amounts from Form 8986.** All adjustments (positive and negative) from a Form 8986 should be shown as reported on that form. When entering adjustments from a Form 8986, enter amounts from Form 8986, Part V, column (h), which reflect the adjustments net of any approved modifications (column (g) of Form 8986). These amounts should be entered in the applicable columns (a) through (d) that correspond to the partner’s affected year. However, if Form 8986 is a result of an AAR partnership (and not an audited partnership), no modifications should be shown on Part V, column (g), of that Form 8986 and no modifications should be reported on Schedule A.

### Schedule A line instructions.

**Line 1—Income.** Enter all the adjustments individually from Form 8986, Part V, that affect taxable income. Generally, this includes adjustments to ordinary income, rental income, interest income, dividends, royalties, gains and losses, and other income. Also include related amounts and adjustments not on Form 8986 that result from changes to partner-level tax attributes and other items as a result of adjustments from Form 8986.

**Line 2—Total adjustments to income.** Enter the total of all adjustments from line 1. Carry the total of each column to the corresponding column on Form 8978, line 1b.

**Line 3—Deductions.** Enter all the adjustments individually from Form 8986, Part V, that affect deductions from income. Generally, this includes adjustments to separately stated items such as a section 179 deduction. Also include related amounts and adjustments not on Form 8986 that result from changes to partner-level tax attributes as a result of adjustments from Form 8986.

**Line 4—Total adjustments to deductions.** Enter the total of all adjustments from line 3. Carry the total of each column to the corresponding column on Form 8978, line 3b.

**Line 5—Credits.** Enter all the adjustments individually from Form 8986, Part V, that affect tax credits. Also include related amounts and adjustments not on Form 8986 that result from changes to partner-level tax attributes as a result of adjustments from Form 8986.

**Line 6—Total adjustments to credits.** Enter the total of all adjustments from line 5. Carry the total of each column to the corresponding column on Form 8978, line 9b.

### Inconsistent Positions

If you originally reported an amount for an item inconsistent with the amount reported to you by the partnership on Schedule K-1 or Schedule K-3, and this same item is included as an adjustment on the Form 8986 received, you should also include the amount of inconsistency for that item on Schedule A (Form 8978).

**Example 4. Inconsistent position and BBA audit adjustment.** Mary Johnson, a partner and calendar year taxpayer, received a tax year 2023 Schedule K-1 with \$100 of ordinary business income. If she only reported \$70 on her Form 1040 or 1040-SR, she would have taken a \$30 inconsistent position on her Form 1040 or 1040-SR. If she subsequently receives a Form 8986 for affected tax year 2023, with an audit adjustment reflecting a \$50 increase to the Schedule K-1, line 1, Ordinary business income amount, she would have two amounts



to enter on Schedule A (Form 8978). First, Mary would enter on line 1a "Schedule K-1, line 1, Ordinary business income" in the adjustments column and \$50 in column (a), which would be labelled "12/31/2023." Second, Mary would enter on line 1b "Inconsistent position previously taken on line 1a item" in the adjustments column and \$30 in column (a). Because she received a Form 8986 from an audit, Mary must now resolve the inconsistency with the original Schedule K-1. If she had no other adjustments, the amount of her total adjustments to income on line 2 of Schedule A, column (a), would be \$80. She would carry this amount to Form 8978, line 1b, column (a).

**Note.** A partner's requirement to treat partnership-related items consistently applies to adjustments that result from an audited partnership or an AAR partnership regardless of whether the partner previously treated the item inconsistently. However, partners that properly and timely file a subsequent Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), for items that are adjusted as part of an AAR filing are not required to treat the items on Schedule A (Form 8978) consistent with the partnership's treatment.

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**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United

States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

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ONLY DRAFT

December 6, 2024